Statement of Calvin Covington, Chief Executive Officer of Southeast Milk, Inc. for South East Dairy Farmers Association before the:

Subcommittee on Livestock and Horticulture.
Agriculture Committee
United States House of Representatives
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Good morning, Mr. Chairman, ranking member Peterson and Members of the Subcommittee. Thank you for holding this hearing and for allowing me to testify. I am Calvin Covington, chief executive officer of Southeast Milk, Inc. headquartered in Belleview, Florida. We are the milk marketing cooperative for almost all of the producers in the state of Florida. We also have membership in the state of Georgia. Our cooperative markets almost 3 billion pounds of milk annually. I am here today representing South East Dairy Farmers Association, which consists of milk marketing organizations and several dairy farmer trade organizations in the southeastern United States.

I intend to include brief remarks on several issues of interest to our dairy farmer members. More extensive background and justification appears in our written testimony which has been submitted for the record.

Dairy Price Support Program

The Southeast Dairy Farmers Association (SEDFA) supports an extension of the Dairy Price Support Program at $ 9.90 per hundredweight of milk of 3.67 % butterfat. This extension will provide well-managed dairy farms with a safety net to protect them from possible disaster that may result from short-term imbalances between milk supplies and demand. A safety net is needed to offset short-term price signals that do not reflect the long-term needs of the market. Market failures to provide prices that are consistent with both short-term and long-term needs of the dairy industry have been and are the foundation for governmental intervention in dairy and other agricultural markets. Dependence upon a safety net program for a price floor for short periods of time is a realistic procedure to assure protection of a long-term adequate supply. The current $9.90 price support level is less than the long-term equilibrium price for the U.S. dairy industry. Current and recent levels of milk production have been encouraged by the low prices for feed. These low feed prices are the result of the high domestic and world production of feed grains, oilseeds and wheat during the past few years. Such low feed prices are viewed as temporary and are not expected to be the normal feed cost situation facing dairymen in the long term. Milk production during the first quarter of 2001 is below that of last year primarily because of the low milk prices experienced in 2000.

Relative to actual milk prices of the past decade, the $9.90 support price represents a low level for a safety net. Even though $9.90 is a low safety net level, this support price: (1) protects efficiently managed dairy farms from short term disaster; (2) provides some milk price stabilization; and (3) results in modest and varying annual expenditures to the government.

Dairy Product Price "Tilt"

The price support program for dairy is effectuated through a purchase program for dairy products – mainly butter, nonfat dry milk and cheese. The relationship between the support purchase price for cheese versus butter and nonfat dry milk is referred to within the dairy industry as the "tilt." SEDFA supports the continuation of the present "tilt" in the butter/powder – cheese purchase prices. This means the continuation of a support purchase price for nonfat dry milk at approximately $1.00 per pound. A $0.10 per pound reduction in the nonfat dry milk purchase price would reduce our cooperative members at Southeast Milk pay price by $0.73 per cwt.

Under the Federal Milk Order reforms (mandated by Congress) the price formulas adopted thereunder significantly modified the way minimum class prices are determined. The new formulas include: (1) a Class IV price computed directly from butter and NFDM prices; (2) a Class II price linked directly to the Class IV price; and (3) Class I prices driven by the higher of Class III and Class IV. With Class IV prices generally driving all but Class III prices, the majority of dairy producer income since the reforms has been affected directly by butter market prices and the CCC purchase price for NFDM. With the expectation that this environment will continue in the near future, dropping the CCC purchase price for NFDM would quickly reduce Class IV, Class II and Class I prices by about the same amount, and the all-milk price would drop by about 60 percent of that amount.

Milk production in the Southeastern part of the United States has been on a downward trend for a number of years. With continued growth in the population of the region, more and more milk is being shipped into the area to meet the Class I (fluid milk) needs. Milk shipped into the area is done so at a cost that exceeds the prices prevailing for locally produced milk. Any action that lowers the relative price in the Southeast will enhance the downward trend in milk production. Greater dependence on other and more distant areas for a milk supply will make milk more costly to consumers in the region. Recent rises in the cost of gasoline and diesel fuels will make distantly produced milk even more costly. Further, since a very high proportion of the milk produced in the Southeast is utilized in Class I and II products, the impact of a change in the "tilt" will be more severe in this region than for the country as a whole.

The SEDFA has reviewed the cost analyses provided to the House Agriculture Committee by the National Milk Producers Federation (NMPF). We believe their estimates are good indicators of future costs of the dairy price support program. Using data from NMPF, termination of the dairy price support program would reduce CCC purchase expenditures for dairy products between $450 million to $550 million per year over the next seven years.

The NMPF testimony pointed out, and SEDFA believes their estimates are reasonable, that by reducing the CCC purchase price for nonfat dry milk by $0.05 per pound, incomes to dairy farmers would be reduced by $2.3 billion over the 2002-2008 period. Producer income would drop by $416 million in 2002 alone if the tilt were changed on or before the beginning of next year. In the later years, the income effect would be lower, as market forces eventually reestablished market equilibrium, but the income impact would be negative in all seven years. The reduced income would result primarily from lower all-milk prices, averaging $0.16 per cwt. less over the period, as well as from a moderate reduction in milk marketed. The largest annual reduction in the all-milk price would be $0.24 per cwt. in 2002.

Reducing the CCC purchase price for nonfat dry milk by $0.05 would reduce government costs by $144 million over the 2002-2008 periods. The savings would vary between $16 million and $22 million per year over the period, but it bears repeating that producer income would drop by a total of $2.3 billion during that period, including at least $400 million in the first year alone.

Federal Milk Marketing Orders

The members of South East Dairy Farmers Association believe that the Federal Milk Marketing Order (FMMO) reforms enacted last year are working relatively well and that any changes can most effectively be made through administrative procedures, including formal rulemaking, at the Department of Agriculture. While some producers in the new Southeast Order have experienced a dramatic reduction in their Class I utilization rate with resulting loss of income, we believe a solution to that issue, and others regarding the Federal Order system, should be handled administratively.

Class III and Class IV Supplemental Payments

During the past three years, Congress authorized and funded market loss assistance payments amounting to almost $1 billion to assist dairy producers through recent periods of very low milk prices. In June 1999, a total of $200 million was paid by the USDA to dairy producers, with each operation receiving approximately 22.5 cents per hundredweight on milk production in 1997 or 1998, up to 26,000 hundredweight. In April 2000, a total of $125 million was paid to dairy farmers, with each dairy producer receiving approximately 13.2 cents per hundredweight on milk production in 1997 or 1998, up to 26,000 hundredweight. The third payment made in December 2000 totaled $645 million, with each dairy producer receiving approximately 64.7 cents per hundredweight on milk production in 1997 or 1998, up to 39,000 hundredweight.

Supplemental payments maintain the flexibility aspects of the 1996 farm bill, but such payments: (1) create uncertainty as to government costs; (2) create uncertainty as to how much, if any, supplemental payments a farmer will receive; and (3) must be debated, by Congress, annually as to merits and amount of such supplemental payments.

In conjunction with its position on maintaining the current "tilt" on support purchase prices, the SEDFA supports a program of supplemental payments on milk used to produce Class III and Class IV products. As a result of federal milk marketing order reform implemented in 2000, prices for milk utilized in different dairy products can diverge (and have diverged) significantly, and for prolonged periods. In particular, the price of milk used to produce cheese, or the Class III price, has fallen significantly below prices for milk in butter/powder and will likely continue to so lag in the future. Because Class I prices are based on the higher of the Class III or Class IV price, it too has been high relative to the price for milk used to produce cheese. Since dairy farmers are paid a weighted-average price based on how their milk is utilized in the production of dairy products, dairy farmers in regions where a high proportion of milk is used to produce Class III products, primarily cheese, are suffering substantial income erosion. Currently, the safety net does not provide the same amount of protection to all producers.

The rationale for the supplemental payments is more one of equity as well as economics. The solution we offer would raise dairy farmer income while proposals that would result in lower Class IV prices would, we believe, only reduce dairy farmer income. Specifically we request that Congress authorize and fund a supplemental payment program for Class III and Class IV milk that would ensure returns from Class III and Class IV would be at least $11.08 per hundredweight for milk of 3 .5 percent butterfat. The Class III and Class IV supplemental payment component would authorize the use of CCC funds to increase the revenues of federal and state milk marketing order pools such that Class III and Class IV revenues are not less than $11.08 per hundredweight. The Federal milk order announced price for Class III milk at 3.5 percent butterfat test averaged $11.08 during the 20-month period February 1999 through September 2000. This price represents a careful balance between the competing objectives of ensuring adequate and equitable income protection for producers whose milk is used largely to produce manufactured dairy products.

During any month that federal order Class III or Class IV, or equivalent state order prices are less than $11.08 per hundredweight, the CCC would make a payment into the relevant pools in an amount equal to the difference between $11.08 and the Class III price times the volume of Class III milk in the pool and/or, as appropriate, the Class IV price times the volume of Class IV milk in the pool. This would ensure that payments producers ultimately receive for the portion of their milk used in Class III and Class IV do not fall below $11.08 per hundredweight, for milk at 3.5 percent butterfat test. Producers who are not paid through a federal or state order pool would receive equivalent income supplements in the form of direct payments. Producers would receive the blend price calculated with no supplementation on the volume of milk they market for the month above the volume they marketed the same month the previous year. This program is truly counter-cyclical in that producers would receive no payments whenever Class III and IV prices are equal to or above $11.08 per hundredweight.

The SEDFA supports supplemental payments on Class III and Class IV milk even though the southeast milk marketing orders (Southeast Order and Florida Order) have the lowest proportion of milk used in these classes. However, because these payments would provide greater equity among producers in the various regions, and serve to maintain or raise overall dairy farmer income, SEDFA supports such a program.

Again, using the impact analysis of the NMPF, this supplemental payment program, operated in conjunction with the current price support and product price "tilt," would increase dairy producer incomes by $5.4 billion during the seven-years of 2002-2008. The cost to the government would be more than the increase in producer incomes. Added production resulting from the higher incomes would lower milk prices and result in slightly higher government purchases. Government costs of this program were estimated at $6.8 billion for the seven years.

Both the Dairy Price Support Program and the Class III and Class IV Supplemental Payments would be classified in the WTO's Amber box.

Within the WTO, the total aggregate measure of support (AMS) is the sum of the AMSs for individual commodities, and the AMS for sector-wide Amber box support. The AMS for the dairy sector has averaged nearly $4.5 billion per year – the biggest for any commodity sector.

The dairy AMS is calculated by taking the difference between the government support price (the legislated price for the year) and the external reference price (the average world price for the 1986-88 base period) and multiplying that difference by the eligible milk production (total milk production for the year). The U.S. notifies this level regardless of the level of actual outlays from the government.

These proposals do not change the "legislative price," and any higher AMS numbers will come from additional U. S. dairy production. NMPF has estimated that in the most expensive year, dairy's contribution to the U.S. Amber box will total $6.3 billion. This amount represents an additional $1.8 billion to our current average U.S. notification of $4.5 billion for the Amber box.

The U.S. budgetary limit under the Amber Box is $19.1 billion for specific commodities. The United States has adequate latitude to operate under non-product specific domestic support provisions, which does not count against our WTO limit (e. g. Market Loss Assistance Payments). Except for sugar and peanuts, other commodities have chosen Green and Blue box programs as their main source of government support. Therefore, a small increase in the AMS for U.S. dairy under the Amber box should have negligible impact on U.S. WTO commitments.

Impact of other Commodity Programs on the Dairy Industry

Table #1 shows the annual cost of federal programs for agricultural commodities over the past two decades. This is included to help demonstrate that the dairy industry uses products from other sectors of U.S. agriculture and that the programs for those commodities impact economics in the dairy industry. It is also included to help show that the cost of the dairy program, when considered as a part of total commodity program expenditures, is small.

Table #1 is included in a recent article published by Dr. Ron Knutson of Texas A&M University and Dr. Hal Harris of Clemson University which presented different policy options for both the dairy and feed grain programs for the 2002 Farm Bill. Those options are still to be debated, and this is not an attempt to advocate a certain position for the feed grains program. The supply of feed grains, as affected by the federal program, undoubtedly impacts the relative need for a dairy farm safety net. The negligible amount of recent annual spending on the dairy program, as reported by Drs. Knutson and Harris, hardly seems unfair to producers of other commodities when considered in light of the total federal program expenditures.

Or, put another way, we contend that the amount of commodities used by an economically healthy dairy industry makes the cost of the federal dairy program a good investment.

Dairy Compacts

The South East Dairy Farmers Association supports H.R. 1827, the bill that would extend and expand the Northeast Interstate Dairy Compact and give Congressional authorization to the fourteen states that have passed legislation to create a Southern Dairy Compact. We believe the experience of the Northeast Compact provides ample justification for the use of compacts to stabilize the dairy marketplace for all concerned and we ask the Members of the Subcommittee to recommend to the Members of the House Judiciary Committee to take favorable action on H.R. 1827. While my home state of Florida has not considered compact legislation yet, we are supportive of the desire of our marketing partners in the southeast to have the advantages a compact offers in adequately supplying local markets in our region.

A number of studies about the performance of the Northeast Compact have been published. The most recent, from the University of Connecticut, shows that the impact to consumers that can be attributed to the compact is just 4.5 cents per gallon. We believe that since the public can be assured that the money goes directly to farmers, such a small increase will not decrease sales.

Other studies have shown differing impacts on farmers, processors, retailers and consumers. The facts remain, however, that markets in compact are open to producers anywhere if milk is needed and producers marketing milk in a compact region, no matter where they are located, share in the benefits of the compact. Our experience in the southeast, also, shows that relatively high Class I prices do not result in massive production gains. The notion that our production would grow enough to glut markets for manufacturing milk is simply not borne out by history.

Two charts are attached showing retail milk prices inside and outside a compact. Chart #1 shows the growing spread between the farm price of milk near Atlanta and retail prices in Atlanta. Chart #2 shows the trend of retail prices in Boston and Atlanta. Since 1997, retail prices in Boston, which is in the Northeast Compact region, have actually been lower than in Atlanta, which is not currently in a compact. The charts suggest that a more stable farm price for milk may actually help keep retail prices lower and milk more affordable for consumers.

Trade Policies and Trade Issues

Even though dairy farmers in the southeast produce very little product for export, we recognize that strong export sales benefit farmers in other areas of the country and that strengthens milk prices overall. We therefore support trade policies that maximize U.S. dairy export opportunities and help "level the playing field" so that U.S. farmers are competing only against the farmers of other countries and not the federal treasuries of other countries.

SEDFA recognizes that U. S. trade programs must be compatible with our international agreements and the WTO. However, the size and affluence of the U.S. economy make it an attractive target market for competitors around the world. Thus, it is imperative that domestic programs be defended whether there are subsidies involved or not. Also, Congress should maintain and support these programs regardless of whether categorized under the Amber, Blue, or Green boxes. Congress should not support a WTO agreement that places our domestic support programs for producers at a disadvantage compared with domestic support for producers in other exporting countries.

As ably noted by NMPF in their testimony before the Committee, monitoring agreements is as important as the construction of the agreement itself. Unfortunately, U. S. industries often find themselves in a situation in which other governments are not complying with their agreements and it is the U.S. industry that must bear the burden and cost of first establishing a "case" against other WTO members. Congress should enact a Trade Agreement Monitoring Program that would provide additional funding in the level of $20 million to each of the Foreign Agricultural Service of the USDA and the office of the U.S. Trade Representative to enhance their ability to monitor compliance with trade agreements.

Dairy Export Programs

The Dairy Export Incentive Program (DEIP) helps exporters of U.S. dairy products develop new markets in competition with subsidized products from other countries, especially the EU. International trade agreements have had ramifications for the Dairy Export Incentive Program (DEIP) as these agreements impose limits on both the quantity of product and the amount of annual DEIP bonuses that the United States can legally provide. The U.S. annual DEIP quantity limits are 21,097 metric tons of butterfat; 68,201 metric tons of nonfat dry milk; 3,030 metric tons of cheese; and 34 metric tons of other dairy products. These numbers are frozen at the current levels unless and until a new round of WTO negotiations changes them. DEIP should be reauthorized at the maximum levels permitted within our export subsidy reduction commitments made during the Uruguay Round Agreement.

At a national meeting in Seattle in 1999, dairy economists overwhelmingly identified EU dairy export subsidies as the number one dairy issue that should be addressed in the next WTO negotiations. Identification of EU subsidized dairy exports as the number one issue points out the importance of subsidies in international trade of dairy products. SEDFA urges Congress to use its influence to assure that this important issue is appropriately addressed during the next trade negotiations involving the EU.

The Market Access Program (MAP) uses funds from the USDA's Commodity Credit Corporation (CCC) to assist U.S. milk producers; exporters; private companies; and other trade organizations finance promotional activities for the sale of U.S. agricultural products abroad. Financial support for MAP activities has declined over the years from an original funding of up to $200 million annually to $90 million. After adjustments for inflation and exchange rate movements, this represents a drop in real terms to about $45 million based on 1986 conditions. Based on past funding and inflation and currency exchange rates, Congress should authorize MAP in an amount no less than $200 million.

The Foreign Market Development Program (FMDP) has as its main goal to develop, maintain, and expand long-term export markets for U.S. agricultural products. The financial support for this program has declined similarly to that of MAP. Using the same rationale as mentioned above for support of the MAP, funding for FMDP should be increased to no less than $43 million annually.

USDA currently provides food aid abroad under three separate programs. These are the Public Law 480 program, also known as the Food for Peace program; the Section 416(b) program; and the Food for Progress program. All are important parts of market development for U.S. products abroad as well as supplementing the food supply in needy countries. SEDFA Believes that Congress should extend all of these food assistance programs.

SEDFA encourages the U.S. government provide overseas food aid through the Global Food for Education Initiative. We recommend that Congress mandate that USDA provide a volume rather than a dollar amount for the continuous support of this initiative. The U. S. should move away from expanding food aid when domestic prices are low and initiate a program that provides for a consistent and sustainable amount of dairy products that would flow steadily to needy people around the globe. SEDFA requests Congress to fund this program in a manner that maintains a consistent level of resources for the Global Food for Education Initiative.

Dairy Trade Issues

Dairy program costs have risen as a result of increased imports of milk protein concentrates (MPC), casein and caseinates. Unlike most other dairy products imported into the United States, MPC and casein can freely enter the U.S. at insignificant tariff levels and subject to no tariff-rate quotas. A recent publication of the Government Accounting Office (GAO) reported that milk protein concentrate imports grew from 805 metric tons in 1990 to 44,878 metric tons in 1999. Imports of these concentrates continue to grow. If not restricted, imports of concentrated milk protein products will displace an estimated annual average of 612 million pounds of less concentrated nonfat dry milk from domestic markets over the 2002-08 period.

Dairy product import quotas, initially imposed under the authority of Section 22 of the Agricultural Adjustment Acts of 1933 and 1935, were designed to prevent imports from undermining the U. S. dairy price support program. Absent import restrictions, U.S. purchases of dairy products would have the effect of supporting international product prices, and thereby become unbearably costly. Implementation of the GATT and NAFTA trade agreements has had important ramifications for the dairy industry. All import quotas have been converted to tariff-rate quotas (TRQs), for which the tariffs have been reduced over time. The GATT and NAFTA agreements also include minimum access requirements. These minimum access requirements allow more dairy products to enter the United States.

When the U.S. established TRQs for other dairy products, i. e., cheese, butter and nonfat dry milk, the technology to both produce and use concentrated milk proteins was in its infancy. Thus, the U.S. created no significant tariffs or quotas for MPC. The U.S. established its tariff-rate schedules for imported dairy products, during the creation of the Harmonized Tariff Schedule in 1989, and later during negotiations of the General Agreement on Tariffs and Trade in 1994. Production and use of concentrated milk proteins was not widely used on a commercial basis. Therefore, when the U.S. established Tariff Rate Quotas (TRQs) for other dairy products, such as cheese, butter and nonfat dry milk, there was no felt need to set significant tariffs or quotas for MPC. As a result, six years after the implementation of the GATT agreement, U.S. imports of MPC have risen more than 600 percent.

One may ask, "What action can Congress take to correct the situation relating to imports of MPC, casein and caseinates in light of our World Trade Organization commitments." Raising U.S. tariffs can be consistent with WTO commitments. Under special circumstances, these actions do not necessarily breach U.S. WTO obligations. Currently, there are at least five cases (Egypt, India, Chile, Philippines, Brazil) in which countries have raised their tariffs above their bound rates without a U.S. government challenge. As pointed out in a recent NMPF release (Milk Protein Imports: Impact on U. S. Dairy Producers), Congress has several options it could pursue. These are listed below and detailed in the NMPF report.

1. Modify Tariff Rates. Congress has the authority to mandate U. S. Customs to reclassify products under the Harmonized Tariff Schedule of the U. S.
2. Request ITC Investigation of MPC Imports. The U. S. International Trade Commission can ssion can make such investigation under Section 332.

3. U. S. Customs Interpretation of MPC. An interpretation assessment would determine the proper classification of MPC and blends of skim milk powders, caseins and whey powders.
4. Section 201 Case. This long-term approach would be based on " substantial cause for serious injury, or threat thereof to the domestic industry.
5. Section 301 / Article XXVIII GATT. Action would be taken by the U.S. Trade Representative.
6. Antidumping. Can be used if industry faces a less than fair value and such is causing or threatening "material injury."
7. Countervailing Duty. Can be used when subsidies provide an advantage to the exported product.

SEDFA is deeply concerned about the economic consequences that the unrestricted imports of MPC, casein, and caseinates. SEDFA strongly recommends that Congress enact legislation, use persuasion, and its power to prevent the circumvention of TRQs relative to MPC and blends entering the U. S. as MPC.

The circumvention of our TRQs and consequent erosion of the dairy price support program has delayed the recovery of U.S. milk prices. These imports have and will continue to increase the cost of the dairy safety net program. Stringent restrictions on milk protein imports would provide large savings to the government as well as increased income to U.S. dairy farmers. Again, using estimates prepared by NMPF, limiting imports of MPC and casein to their current levels would result in:

1. reduced government costs by $905 million over a period from 2002 to 2008.

2. increased dairy producer income by $694 million over the same period.

SEDFA urges Congress to do all it possibly can to limit MPC, casein and caseinate imports to no more than the amount entering the U. S. during the past year.

SEDFA commends Congressmen Obey, Gutknecht, Sanders, Baldwin and McHugh for introducing House Bill H-1786, and Senators Dayton, Feingold, Kohl, Wellstone, and Leahy for introducing Senate Bill S-847. These companion bills would correct a loophole in our present Harmonized Tariff Schedule and would simultaneously stop allowing imports of MPC, casein and caseinates to enter the United States at a competitive advantage. At the same time this proposed legislation would set reasonable TRQs for these products. The proposed legislation would place these products on the same basis with other dairy products that are traded on the world market - e.g. cheese, butter, and nonfat dried milk. SEDFA supports this legislation and urges all members of this committee to help with its passage. These bills provide a realistic and fair method of solving the problem outlined in our testimony.

Promotion Assessments on Dairy Product Imports

America's dairy farmers currently fund a generic promotion and research program by paying a checkoff of $0.15 cents per hundredweight on all milk marketed. Yet imported products compete with domestically produced products, enjoying the benefits of generic promotion without any of the cost. We believe, as an issue of basic fairness to dairy farmers, Congress should pass legislation requiring that imported product be assessed the same checkoff amount on a milk-equivalent basis with the funds used to supplement domestic farmer-funded promotion programs. This action would make dairy consistent with the majority of other commodities which include assessment on imported products in the legislation for their promotion and research programs.

Animal Health Programs

Foot and Mouth Disease

Recent outbreaks of foot and mouth disease (FMD) in Europe, South America and other parts of the world have justifiably alarmed the Dairy, Beef Cattle and Swine industries of the United States. Introduction of this highly infectious disease into this country would be devastating to these industries. The ease of transmitting FMD and the rapid spread thereof are reasons for the worried concern of animal producers that FMD may be introduced into the U. S. Today's high amount of international travel by foreigners coming to this country and by U. S. citizens traveling abroad increases the possibility of BMD being introduced into this country.

SEDFA applauds Secretary of Agriculture Ann Veneman for making additional funds available to increase inspection personnel at major U.S. ports of entry to better protect against the introduction of diseases such as FMD. Increased surveillance needs to be done immediately and at all ports of entry. The USDA's announced program of prohibiting shipments of products from high-risk countries; increasing personnel and surveillance at ports of entry; tightening regulatory enforcement; strengthening federal, state, and industry coordination; implementing education campaigns; and dispatching experts to other countries (Great Britain) to assist containment efforts is encouraging. SEDFA urges Congress to provide the necessary funding so that the USDA can safely assure the U. S. animal industries that the dreaded foot and mouth disease will not enter this country. These efforts cannot wait until the next fiscal year.

Johne's Disease

Johne's disease (*Mycobacterium paratuberculosis*) is an infectious disorder of the intestinal tract of cattle and other ruminant animals. It is generally contracted by calves, but doesn't manifest itself clinically until that animal is older. Symptoms are loss weight, rapid drop in milk production and the eventual wasting away of the animal.. Johne's is not a threat to human health, but just like Foot and Mouth disease, it is a major concern to dairy farmers who have to deal with its economic consequences.

This disease has no effective cure and vaccines developed to date are of limited efficacy. It has been estimated that this disease costs the U.S. dairy industry at least $200 million annually in lost milk production, and reduced cull cow prices. Government studies show that Johne's disease is present in at least 20% of both large and small herds across the country.

The National Milk Producers Federation , the American Farm Bureau Federation, the Holstein Association, the Dairy Herd Improvement Association, the Western States Dairy Producers Trade Association, the National Council of Farmer C arise from the nature of the operation, the topography and elevation of the land, the location relative to natural drainage, etc.

The mandatory requirement of BMPs on dairy farms would require considerable cost for the monitoring and enforcement of such practices. SEDFA believes that a system of voluntary BMPs with incentives to put these in place through cost sharing programs would be the most effective and efficient means of getting BMPs adopted most rapidly. Congress should provide funds (for technical and financial assistance) to achieve producer compliance whenever the BMPs (whether voluntary or mandatory) require changes or additions to dairy facilities and/or production practices.

The one Farm Bill Program designed to assist dairy farmers to meet environmental regulations is USDA's Environmental Quality Incentives Program (EQIP). Created by the 1996 Farm Bill, EQIP is a conservation program that provides cost sharing and technical assistance to producers who voluntarily make changes that improve the environment. Half of the EQIP funding is available for livestock producers, and the other half for crop producers. NRCS state technical committees work with local groups to identify priority areas within states. The goal of current procedures is to maximize benefits per dollar expended. EQIP contracts last from five to ten years and can provide a maximum of 75% of the total cost of the project to the producer, not to exceed $10,000/year or $50,000/contract.

A significant limitation of EQIP is the lack of adequate funding for all the needed agricultural environmental concerns or initiatives. While the program was written to be funded at $200 million per year, it has been repeatedly under-funded by Congress. The federal budget blueprint calls for an increase in that funding and it is our hope that the Congress will follow through on that plan. That increase, however, is not enough to cover the costs that farmers will incur. Even when fully funded, only a fraction of those facilities that apply for assistance receive approval. Larger dairy facilities cannot use EQIP monies for the construction of manure storage facilities. This is the often the major environmental investment that producers face. Farms located outside of identified priority areas are unlikely to be approved for EQIP contracts.

SEDFA urges Congress to increase EQIP funding and remove restrictions so that more producers are eligible participate in this program.

USDA-NRCS estimates that the total cost for AFOs to implement Comprehensive Nutrient Management Plans (CNMPs) will be $13 billion. EPA estimates that its proposed CAFO Rule could cost producers almost $1 billion annually. To assure adequate funds for the EQIP Program, SEDFA supports the request that this program be funded at $1.25 billion annually.

Fluid Milk Standards

SEDFA supports amending the federal Standard of Identity for fluid milk products by raising the minimum amount of solids-not-fat to no less than 8.6 percent. This will raise the standard to the average solids-not-fat content found in U. S. milk. This will improve the fluid milk and make it more consistent among all plants and regions. Greater consistency will make milk more the same regardless of where purchased. Our very mobile population will find the same milk regardless of the place visited. This should increase the consumption of milk and reduce the purchases by the government. Under the Federal Milk Order reforms this change would result in more "equal cost to all handlers," because practically all milk is now priced on a component basis.

School Milk Standards

SEDFA supports legislation and/or regulatory efforts to ensure that milk purchased for the National School Lunch Program meets the higher of the federal or state Standards of Identity that may apply. Failure to require that all competing handlers meet the higher of these standards results in two things. One, school children may be served an inferior product affecting their perception of milk as a desirable beverage. Two, a supplier could obtain a competitive advantage due to different standards being required. Requiring that milk served in schools meet standards will help ensure that school children receive a quality product and prevent any competitive advantage from occurring due to lack of enforcement of standards. Again, the proposal would make the same standard apply to all suppliers wishing to provide milk to schools in each state.

This completes my statement Mr. Chairman. Thank you again for the opportunity to testify. I'll be happy to answer any questions from the Members of the Subcommittee.